

BUDGET REPORT AND MEASURE SUMMARY

Joint Committee On Ways and Means

Action:

Action Date:

Vote:

Prepared By: Lyndon Troseth, Department of Administrative Services

Reviewed By: John Borden, Legislative Fiscal Office

Agency: State Treasurer

Biennium: 2015-17

Budget Summary*

	2013-15 Legislatively Approved Budget⁽¹⁾	2015-17 Current Service Level	2015-17 Committee Recommendation	Committee Change from 2013-15 Leg. Approved	
				<u>\$ Change</u>	<u>% Change</u>
Other Funds Limited	\$ 47,996,510	\$ 49,103,524	\$ 61,285,021	\$ 13,288,511	27.7%
Total	\$ 47,996,510	\$ 49,103,524	\$ 61,285,021	\$ 13,288,511	27.7%

Position Summary

Authorized Positions	96	92	119	23
Full-time Equivalent (FTE) positions	91.30	90.60	115.20	23.90

⁽¹⁾ Includes adjustments through December 2014

* Excludes Capital Construction expenditures

Revenue Summary

The Office of the State Treasurer (OST) is financed with Other Funds revenues from investment administrative fees, payments from state agencies and banks for banking services, reimbursements from state agencies for bond and coupon redemption and bond issuance costs, and fees from program participants.

While portfolio values have fluctuated greatly since the start of the financial crisis, OST has been able to adjust its fees to maintain consistent agency revenues, in part because the agency has broad authority to set its fees within statutory limits.

Summary of General Government Subcommittee Action

OST acts as the banker for the State of Oregon by maintaining all state agency financial accounts and by investing state funds.

The Subcommittee approved a budget of \$61,285,021 Other Funds, which is a \$13.3 million, or 27.7 percent increase, from the 2013-15 Legislatively Approved Budget. The budget includes 119 positions (115.20 FTE), which is an increase of 23 positions (23.90 FTE), or 24.0 percent.

Beginning in 2011, OST and the Oregon Investment Council hired seven vendors to conduct 18 studies of various aspects of the Investment Program at a cost of over \$750,000. These studies range from a current state assessment to a target operating model. Most of the studies pertain primarily to the operational, rather than investment risk of the Investment Division. The findings of the studies detail significant and systemic deficiencies within the Investment Division, which have remained unaddressed for years. Such deficiencies include misaligned roles and

responsibilities, inadequate internal controls, insufficient risk management, weak investment compliance, insufficient management reporting, lack of a formal approval process for decision-making, segregation of duties issues, outdated policy and procedures, inadequate investment decision support systems, and overreliance on manual processes.

To begin to address these core deficiencies, the budget request, as well as a supplemental request by the State Treasurer, were approved by the Subcommittee. Additionally, as detailed below, the Oregon Investment Council also has added resources to address the deficiencies. The combination is a substantial new investment in the level of resources dedicated to the State's investment management activities, including: new investment officers; business analysts or investment operations staffing; a state-of-the-art investment information technology platform; information technology staff; the establishment of an internal compliance program; a contract for risk management consulting services; a contract for investment accounting; and additional resources for internal auditing and general agency administration.

Treasury Services – 001

The following is a summary of the budgetary changes:

Package 082, Investment Management Program (December 2014 E-Board). This package adds one permanent full-time position (1.00 FTE) as a Senior Private Equity Investment Officer. Personal Services total \$541,626 Other Funds and Services and Supplies total \$10,704 Other Funds.

Package 101, Investment Solutions. This package adds 17 permanent full-time positions (15.01 FTE). Personal Services total \$3.3 million Other Funds, \$1.5 million Other Funds for Services and Supplies, and \$345,810 Other Funds for Capital Outlay.

- Chief Investment Officer: one permanent full-time Executive Assistant (0.92 FTE); one permanent full-time Private Market Alternative Investment Analyst (Economist 4) (0.92 FTE); one permanent full-time Senior Alternatives Investment Officer (0.92 FTE); one permanent full-time Public Market Alternative Investment Analyst (Economist-4) (0.92 FTE); and one permanent full-time Capital Market Investment Officer (0.92 FTE);
- Director of Investment Operations: one permanent full-time Operations Support-Public (Economist-4) (0.83 FTE); one permanent full-time Operations Support-Private (Economist-3) (0.83 FTE);
- Chief Information Services: one permanent full-time Executive Assistant (0.92 FTE); one permanent full-time Investment Application Support Specialist (Information Systems Specialist 6) (0.92 FTE); one permanent full-time Network Services Team Lead (Information Systems Specialist 8) (0.92 FTE); and one permanent full-time Security Administrator (Information Systems Specialist 5) (0.92 FTE);
- Chief Administrative Officer: one permanent full-time Project Manager (Principal Executive Manager E) (0.92 FTE); and
- Chief Compliance Officer: one permanent full-time Paralegal (0.83 FTE); one permanent full-time Investments Contracts Officer (0.83 FTE); one Securities Transaction Officer (Principal Executive Manager-H) (0.83 FTE); one Operational Risk Manager (Principal Executive Manager H) (0.83 FTE); and one Operational Compliance Manager (Principal Executive Manager-H) (0.83 FTE).

Package 802, Supplemental Request for Investment Solutions. This package is a supplemental request by the State Treasurer that adds additional staffing to Package 101, Investment Solutions, that was requested during the legislative session. The package adds six permanent full-time positions (5.59 FTE). This package adds Personal Services of \$1.4 million Other Funds and Services and Supplies of \$125,855 Other Funds.

- Chief Investment Officer: one permanent full-time Investment Analyst 3 (0.83 FTE);
- Director of Investment Operations: one permanent full-time Director of Investment Operations (Investment Officer) (0.92 FTE);
- Chief Compliance Officer: one permanent full-time Chief Compliance Officer (Investment Officer) (0.92 FTE)
- Chief Information Services: one permanent full-time Data Architect (Information Systems Specialist 8) (1.00 FTE);
- Chief Administrative Officer: one permanent full-time Data Steward (Principal Executive Manager E) (1.00 FTE); and
- Chief Audit Executive: one permanent full-time Senior Internal Auditor (Internal Auditor 3) (0.92 FTE).

In addition to, but apart from, the State Treasurer's budget, the Oregon Investment Council (OIC) has also expended funds to address deficiencies at the State Treasury's Investment Management Division. OIC is expending an estimated \$15.2 million in one-time and ongoing costs for a state of the art investment management information technology application, and risk management, investment accounting, and market data services.

OIC's expenses associated with investment managers' fees, consultants, brokerage commissions, and other expenses have also grown from \$335.2 million in 2012 to \$504.7 million in 2014, which is an increase of \$169.5 million, or 50.0 percent.

OIC has broad statutory authority and flexibility to contract for services to react to changing market conditions. OIC is not subject to legislative budgetary control (i.e., expenditure limitation) and any expense incurred by the Council is netted against investment earnings.

Budget Note

The State Treasury is to report to the Legislature in 2016 on the hiring of newly authorized positions and the associated improvements to: risk management; compliance; investment decision support systems; investment analysis; data security; management reporting; internal controls; segregation of duties issues; internal auditing; and the updating of policy and procedures.

The Subcommittee also approved the following current service level changes for the Treasury Services program:

Package 080, Information Security Management Program. This package is a technical adjustment added by the Legislative Fiscal Office to include an Emergency Board action from May 2014 to establish an enterprise-wide Information Security Management Program. The package would

continue two permanent full-time positions: an Information Security Manager (Principal Executive Manager-E) (1.00 FTE) and an Information Security Administrator (Information Systems Specialist 8) (1.00 FTE). Personal Services total \$573,438 Other Funds and Services and Supplies total \$348,733 Other Funds. Services and Supplies include \$200,000 for a managed security subscription service (24/7 threat monitoring, response, and consulting), \$60,000 in ongoing security testing and valuation services (e.g., penetration testing, new application testing, annual security reviews), and \$50,000 in security management tools internal to the agency for desktops and mobile devices.

Package 801, LFO Analyst Adjustments. This package makes two technical adjustments: (1) it phases-out \$1,115,640 Other Funds expenditure limitation for the Public Infrastructure Commission and the West Coast Infrastructure Exchange. The revenue source had been a transfer from the Governor's Office, which was appropriated one-time General Fund from House Bill 4111 (2014). At present, there is no identified revenue source for the continuation of this expenditure; and (2) it adds \$283,202 Other Funds expenditure limitation for a contract for budget and accounting services with the Department of Administrative Services Shared Client Services. The net effect of these two technical adjustments reduces Services and Supplies by \$832,438 Other Funds.

Package 102, Cash Management Business Systems Renewal Project. This package was approved based upon the recommendation of the Joint Committee on Ways and Means - Information Technology Subcommittee. The package adds \$4,490,000 Other Funds Services and Supplies for 1) the Automated Clearing House Business Systems Renewal (BSR) Project (\$200,000 for the implementation phase, including quality assurance and control, and \$750,000 for ongoing biennial costs), 2) the Local Government Investment Pool BSR Project (up to \$2,200,000 for the implementation phase, including quality assurance and control, and \$880,000 for ongoing biennial costs), and 3) the Core Banking BSR Project (\$150,000 for business case development, including quality assurance and control, and \$310,000 for mitigation activities).

Oregon 529 College Savings Network - 002

The Oregon 529 College Savings Network operates to increase the ability of Oregon families and individuals to save for qualified higher education expenses through flexible investment options that offer state and federal tax benefits. For this unit the Subcommittee approved a 2015-17 budget of \$5,336,602 Other Funds and three positions (3.00 FTE). The Subcommittee approved the following current service level changes for this program:

Package 080, Technical Adjustment. This package is a technical adjustment added by the Legislative Fiscal Office to include an Emergency Board action from May 2014 for the 529 College Savings program, which provided for one permanent full-time position whose duties include statewide outreach, outreach to financial advisors, and work on a marketing plan. The package continues one permanent full-time position, a Public Affairs Specialist 3 (1.00 FTE). Personal Services totals \$238,969 Other Funds and Services and Supplies totals \$67,049 Other Funds. The revenue source is the 529 Network Fund which is funded with fee revenue from a portion of private third party investment administrator charges on individual accounts and would be transferred to the Oregon 529 Savings Network Fund. According to the agency, a fee increase will not occur as the package will be funded primarily through a draw-down of the program's ending balance.

Summary of Performance Measure Action

The Subcommittee approved the attached Legislatively Adopted 2015-17 Key Performance Measures form.

DETAIL OF JOINT COMMITTEE ON WAYS AND MEANS ACTION

HB 5041-A

Oregon State Treasurer
Lyndon Troseth - 503-378-3105

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
2013-15 Legislatively Approved Budget at Dec 2014 *	\$ -	\$ -	\$ 47,996,510	\$ -	\$ -	\$ -	\$ 47,996,510	96	91.30
2015-17 Current Service Level (CSL)*	\$ -	\$ -	\$ 49,103,524	\$ -	\$ -	\$ -	\$ 49,103,524	92	90.60
SUBCOMMITTEE ADJUSTMENTS (from CSL)									
SCR 001 - Treasury Services									
Package 080 (May 2014 E-Board)									
Personal Services	\$ -	\$ -	\$ 573,438	\$ -	\$ -	\$ -	\$ 573,438	2	2.00
Services & Supplies	\$ -	\$ -	\$ 348,733	\$ -	\$ -	\$ -	\$ 348,733		
Package 082 (December 2014 E-Board)									
Personal Services	\$ -	\$ -	\$ 541,626	\$ -	\$ -	\$ -	\$ 541,626	1	1.00
Services & Supplies	\$ -	\$ -	\$ 10,704	\$ -	\$ -	\$ -	\$ 10,704		
Package 101 (Investment Solutions)									
Personal Services	\$ -	\$ -	\$ 3,328,954	\$ -	\$ -	\$ -	\$ 3,328,954	17	15.01
Services & Supplies	\$ -	\$ -	\$ 1,498,298	\$ -	\$ -	\$ -	\$ 1,498,298		
Capital Outlay	\$ -	\$ -	\$ 345,810	\$ -	\$ -	\$ -	\$ 345,810		
Package 102 (Cash Management Business Systems Renewal Project)									
Services & Supplies	\$ -	\$ -	\$ 4,490,000	\$ -	\$ -	\$ -	\$ 4,490,000		
Package 801 (LFO Analyst Adjustments)									
Services & Supplies	\$ -	\$ -	\$ (832,438)	\$ -	\$ -	\$ -	\$ (832,438)		
Package 802 (Supplemental Request for Investment Solutions)									
Personal Services	\$ -	\$ -	\$ 1,444,499	\$ -	\$ -	\$ -	\$ 1,444,499	6	5.59
Services & Supplies	\$ -	\$ -	\$ 125,855	\$ -	\$ -	\$ -	\$ 125,855		
SCR 002 - Oregon 529 Collge Savings Network									
Package 080 (May 2014 E-Board)									
Personal Services	\$ -	\$ -	\$ 238,969	\$ -	\$ -	\$ -	\$ 238,969	1	1.00
Services and Supplies	\$ -	\$ -	\$ 67,049	\$ -	\$ -	\$ -	\$ 67,049		
TOTAL ADJUSTMENTS	\$ -	\$ -	\$ 12,181,497	\$ -	\$ -	\$ -	\$ 12,181,497	27	24.60
SUBCOMMITTEE RECOMMENDATION *	\$ -	\$ -	\$ 61,285,021	\$ -	\$ -	\$ -	\$ 61,285,021	119	115.20

% Change from 2013-15 Leg Approved Budget 0.0% 0.0% 27.7% 0.0% 0.0% 0.0% 27.7%
 % Change from 2015-17 Current Service Level 0.0% 0.0% 24.8% 0.0% 0.0% 0.0% 24.8%

*Excludes Capital Construction Expenditures

Legislatively Approved 2015-2017 Key Performance Measures

Agency: OREGON STATE TREASURER

Mission: To provide financial stewardship for Oregon.

Legislatively Proposed KPMs	Customer Service Category	Agency Request	Most Current Result	Target 2016	Target 2017
1 - Oregon Public Employees Retirement Fund Net Performance of 5-Year Rolling Average Compared to Policy Benchmark		Approved KPM	1.94	1.97	1.97
2 - Common School Fund Net Performance of 5-Year Rolling Average Compared to Policy Benchmark.		Approved KPM	0.40	0.78	0.78
3 - Oregon Short-Term Fund Returns Compared to Benchmark		Approved KPM	0.10	0.10	0.10
4 - Expense to Assets Ratio for the Oregon Short-Term Fund		Approved KPM	0.06	0.10	0.10
5 - Local Government Participation in the Oregon Short-Term Fund		Approved KPM	77.00	80.00	80.00
6 - Banking Services - Average Cost per Transaction		Approved KPM	0.05	0.17	0.17
7 - Oregon School Bond Guaranty Program Bonds Outstanding		Approved KPM	3.19	3.21	3.21
8 - Number of Oregon 529 College Savings Network Accounts		Approved KPM	136,051.00	145,000.00	145,000.00
10 a - Oregon Debt Issuance Activity: Levels of Transaction Volume and Total State Government Debt Outstanding by Fiscal Year		Approved KPM	13.20	15.00	15.00
10 b - Oregon Debt Issuance Activity: Levels of Transaction Volume and Total Local Government Debt Outstanding by Fiscal Year		Approved KPM	20.60	25.00	25.00
11 - Customer Service - Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Accuracy	Approved KPM	96.00	100.00	100.00
11 - Customer Service - Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Availability of Information	Approved KPM	93.00	100.00	100.00

Agency: OREGON STATE TREASURY

Mission: To provide financial stewardship for Oregon.

Legislatively Proposed KPMs	Customer Service Category	Agency Request	Most Current Result	Target 2016	Target 2017
11 - Customer Service - Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Expertise	Approved KPM	98.00	100.00	100.00
11 - Customer Service - Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Helpfulness	Approved KPM	99.00	100.00	100.00
11 - Customer Service - Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Overall	Approved KPM	98.00	100.00	100.00
11 - Customer Service - Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Timeliness	Approved KPM	97.00	100.00	100.00

LFO Recommendation:

The Legislative Fiscal Office recommends approval of the agency's key performance measures and targets.

Sub-Committee Action:

The General Government Subcommittee adopted the Legislative Fiscal Office recommendations.